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BEYOND BROKE

Why Closing the Racial Wealth Gap is a Priority for
National Economic Security



Rebecca Tippett, Ph.D.
Avis Jones-DeWeever, Ph.D.
Maya Rockeymoore, Ph.D.
Darrick Hamilton, Ph.D.
William Darity, Jr., Ph.D.

Rebecca Tippett, Ph.D.

Director of Carolina Demography
Carolina Population Center
University of North Carolina, Chapel Hill

Avis Jones-DeWeever, Ph.D.

President and CEO
Incite Unlimited

Maya Rockeymoore, Ph.D.

President and CEO
Center for Global Policy Solutions

Darrick Hamilton, Ph.D.

Associate Professor of Economics and Urban Policy
Milano Graduate School of International Affairs,
Management, and Urban Policy
The New School

William Darity, Jr., Ph.D.

Samuel DuBois Cook Professor of Public Policy,
African and African American Studies and Economics
Co-Director, Research Network for Racial and Ethnic Inequality
Duke University

ABOUT THIS REPORT

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Executive Summary

Despite overwhelming evidence that the racial wealth gap persists in the U.S., it remains a taboo topic in mainstream policy circles and most officials studiously avoid offering targeted solutions to help close the gap. However, this issue is ignored at our nation's peril given the anticipated growth of racial and ethnic groups over the next few decades.

It is an inconvenient truth that the U.S. has maintained racialized policies that have stood in the way of people of color earning wealth and passing it on to the next generation. Historical policies codified in U.S. laws have included: the appropriation of Native American lands and the use of termination and assimilation policies to keep them oppressed; the sanctioning of uncompensated slave labor for people of African origin and the use of housing, educational, and economic segregation to perpetuate their isolation; the use of occupational and educational segregation and the denial of citizenship status to marginalize Latinos; and the adoption of exclusionary laws in the 20th century to keep people of Asian origin from purchasing land, owning businesses, or obtaining citizenship.

The contemporary effects of these racialized policies have been exacerbated by discriminatory practices that persist. For example, the subprime mortgage crisis—in which lenders expressly targeted communities of color for faulty mortgages—had a direct role in decimating wealth in communities of color, which are more dependent upon home equity as a source of wealth. A 2013 study by the Institute on Assets and Social Policy at Brandeis University found that the racial wealth gap is largely driven by “policy shaping opportunities” in the areas of housing, income, unemployment, education, and family or inherited wealth.

Given the projected demographic explosion of the same racial and ethnic groups that have been marginalized in the U.S. economy, the issue of the racial wealth gap must be a national economic security priority. How can we expect U.S.

economic productivity to increase and keep pace with the 21st century global economy if the nation's rising majority isn't able to fully participate in its economy? No matter what the prognosticators say about the increasing efficiency of new technologies, we cannot expect the U.S. economy to be driven on autopilot. Who will purchase goods and services from businesses, drive new business ideas, and keep our democratic engines running if the majority of the population is steeped in poverty? U.S. leaders must recognize that closing the racial and ethnic wealth gap is critical for maintaining our economic leadership in the world.

Unfortunately, it is precisely this rising majority that has been impacted most deeply from the most entrenched recession experienced on these shores since the Great Depression. While it is true that Americans of all racial and ethnic backgrounds continue the struggle to rebuild wealth, the depth of this struggle is not the same for everyone. Influenced by both ethnicity and place, the racial wealth gap remains a jarring check on notions of a unified American experience. This report uses the most recently available data from the U.S. Census Bureau's Survey of Income and Program Participation (SIPP) along with the National Asset Scorecard in Communities of Color (NASCC) in order to highlight the current state of America's racial wealth gap. With these tools, we provide an in-depth analysis of housing wealth and liquid wealth, while also evaluating how wealth disparities manifest across racial and ethnic categories and within racial and ethnic subpopulations in four geographically diverse U.S. cities. We surmise that the larger depletion of housing wealth in communities of color—which played out consistently but unevenly in different U.S. housing markets—and the stark racial disparities in liquid wealth signify that communities of color paid a disproportionate price for the housing and financial crisis but have not yet, and are a long way from, receiving the benefits of the recovery or housing programs intended to provide relief for those affected by the crises.



Findings from the study conclude:

When it comes to the racial gap in liquid wealth, African Americans and Latinos are nearly penniless.

Liquid wealth, that is those financial assets that can be quickly turned into cash, is largely non-existent within Black and Latino households. In fact, as of 2011, African Americans had a median liquid wealth of only \$200, compared to \$23,000 held by Whites and \$19,500 held by Asians. Latinos didn't fare much better, with a median liquid wealth of only \$340. While the overall wealth gap remains stunning, as Whites have a median net worth over 15 times that of Blacks (\$111,740 vs. \$7,113), and over 13 times that of Latinos (\$111,740 vs. \$8,113), when it comes to liquid wealth, the disparity is even starker. The median liquid wealth of Whites is over 100 times that of Blacks and more than 65 times that held by Latinos.

When retirement savings are taken out of the analysis, the disparities in liquid wealth are even more disturbing. Blacks are found to hold a mere \$25 and Latinos just \$100 in liquid wealth, compared to \$3,000 held by the typical White household.

Whites have greater asset diversity than do people of color.

More than half (55%) of Whites own four or more distinct asset types, compared to 49 percent of Asians and only one fifth of Blacks (21%) and Latinos (22%). The study found that African Americans and Latinos are most likely to hold no more than two assets.

For most African Americans and Latinos, checking accounts are their only liquid asset.

Most Whites hold both checking accounts (80%) and retirement accounts (58%), and nearly one-third hold additional financial assets (31%). In comparison, just over half of African Americans (55%) hold checking accounts, while under a third (32%) hold retirement accounts, and only about 1 in 10 hold

other financial assets (9%). Similarly, 60 percent of Latinos possess checking accounts, less than a third hold retirement accounts (28%), and only 6 percent own any other financial assets. Asians fare much better in this respect, in fact exceeding the proportion of Whites who hold checking accounts (83% vs. 80%), but still trailing Whites as it relates to retirement account ownership (57%) and ownership of additional financial assets (24%).

The vast majority of African Americans and Latinos are “liquid asset poor.”

Over two-thirds of African Americans (67%) could be considered “liquid asset poor” as are nearly three-fourths of Latinos (71%), meaning that their financial assets (including retirement accounts) are insufficient to survive. However, only about a third of Whites (34%) are liquid asset poor (including retirement accounts). Once retirement accounts are taken out of the equation, more than 8 in 10 of African Americans (83%) and Latinos (85%) are liquid asset poor. Even when retirement accounts are excluded, just over half of Whites would be considered liquid asset poor (53%).

African Americans and Latinos are over twice as likely as Whites to hold no financial assets at all, and to have no or negative net worth.

Over a third of all African Americans (38%) and Latinos (35%) have no financial assets whatsoever, compared to only 14 percent of Whites. Likewise, some 33 percent of African Americans and 28 percent of Latinos have either no or negative net worth, compared to only 13 percent of Whites.

While all racial and ethnic groups lost home equity as a result of the Great Recession, people of color suffered significantly more losses than Whites.

Between 2005 and 2011, median home equity declined by more than a third for all racial/ethnic groups. Whites lost 32 percent of the equity in their homes. African Americans lost more than a third (36%), and Asians lost nearly half of their home equity (46%). Latinos were most profoundly impacted, losing over half (56%) of their homes' value.



Race, ethnicity, and place are closely linked to the effects of the housing crisis.

Arizona, California, Florida, Michigan, and Nevada were the five states hardest hit by the housing crisis. More than 40 percent of Asian and Hispanic homeowners lived in one of these five “crisis states.” In contrast, only one in five White homeowners (20%) lived in crisis states, as was the case for just 18 percent of African American homeowners. Overall, individuals who live in a crisis state are three times more likely to be underwater in their mortgages than those who do not live in a crisis state.

Whites are more likely than any other racial or ethnic group to own a home, and are the least likely to owe more than their homes are worth.

Even after the housing crash, fully 68 percent of Whites are homeowners, as compared to 59 percent of Asians, 43 percent of Latinos, and 42 percent of African Americans. These differences in homeownership rates persist even after controlling for a variety of socioeconomic factors such as age, educational attainment, marital status, income, and living in a housing crisis state.

Not only are Whites more likely to own homes, only 15 percent are underwater in their mortgages—the least likely group to experience this circumstance. In fact, African American homeowners are 86 percent more likely to be underwater than Whites, while Latinos are 36 percent more likely to be underwater than are their White counterparts.

Homeownership is still the key driver of wealth.

Among homeowners, home equity still makes up the bulk of their personal wealth. For Whites, home equity accounts for 58 percent of their net worth, for Latinos, 67 percent and for Asian homeowners, 72 percent. For African Americans, home equity accounts for nearly all of their personal net worth (92%). Disparities in home ownership rates, home values, and equity owned in housing are key factors driving the racial wealth gap.

Latino homeowners experienced the largest drop in net worth following the recession, and have yet to recover.

Even in the recovery period, African Americans and Asian Americans lost nearly half of their wealth (45% and 48% respectively) compared to a 21 percent loss among Whites. But no group was more resoundingly impacted than Latinos, who lost a whopping 58 percent of their net worth.

Asian Americans lead all groups in business equity.

Asian Americans outperform all groups when it comes to business equity. At \$50,000, their median business equity fully doubles that of whites (\$25,000) and greatly outperforms that of both Blacks (\$20,000) and Latinos (\$12,500).

The racial wealth gap shows little signs of improvement in the recovery period.

Well into the recovery period, the racial wealth gap has improved, but only by an infinitesimal degree. In the immediate aftermath of the Great Recession the racial wealth gap reached record levels. For every dollar in wealth held by Whites, African Americans and Latinos held only 5 and 6 cents respectively. In the recovery period, the disparity remains nearly unchanged as African Americans and Latinos now hold only 6 and 7 cents each for every dollar of wealth held by Whites.

There is great variance in ownership of key financial assets (stocks, mutual funds, investment trusts, etc.) between racial and ethnic groups and among racial and ethnic sub-populations.

According to our pilot study of racial/ethnic wealth differences in four U.S. cities, we find that in Washington, DC, Whites are nearly three times more likely than African Americans to hold key financial assets. In comparison, although Whites in Tulsa, OK hold fewer key assets than do Whites in DC, they are more than seven times more likely to hold these assets than are African American and Mexican families in Tulsa. In Miami, although about half as likely as Whites, Cubans are more likely than African Americans to



own key financial assets, and also exceed the rates of Latinos who hail from South America. Among Asian Americans in Los Angeles, we find that Japanese Americans are fully six times more likely to hold key financial assets than are Vietnamese Americans, and one-and-a-half times more likely to hold assets than Whites. Chinese Americans, too, are especially likely to hold key financial assets, with a rate that is roughly five times that of Vietnamese Americans.

Tulsa, Oklahoma and Miami, Florida are hotspots for liquid asset draining payday lenders.

The four-city analysis of the NASCC data reveals that payday lending is most prevalent in Tulsa, OK and Miami, FL. In Miami, payday loans are most frequently used by African Americans and Puerto Ricans. In Tulsa, Native Americans and African Americans are most apt to use payday loans.

Policy Recommendations

In order to address the challenges this analysis illuminates, we put forth a comprehensive set of recommendations that work together to form a strong “Asset House” for communities of color and help close the racial and ethnic wealth gap. Key recommendations include the following:

✓ **Make work pay and pay workers fairly.**

It is difficult to divert money to savings vehicles that will result in wealth, liquid or otherwise, if one’s earnings are so meager that there is barely enough to cover the basic necessities of life. Therefore, we urge passage of living wage policies to make work pay for every American. We also acknowledge that pay discrimination is not a relic of the past. In fact, a pay gap exists across both race and gender throughout the nation and persists across every level of education. To end this entrenched practice of discrimination, paycheck fairness must become a lived reality so that the wage secrecy which allows discrimination to thrive, can once and for all, come to an end.

✓ **Ensure mortgage relief programs are transparent and fair.**

Congress and the Administration should ensure that future mortgage settlements include the collection of racial/ethnic, gender, geographical and other demographic data in order to ensure that relief programs are transparent, fair, and targeting the hardest-hit communities.

✓ **Allow Freddie Mac and Fannie Mae to perform principal reduction and loan modifications for distressed homeowners.**

Communities of color were hit hardest by the housing crisis. As such, they are significantly more likely than Whites to be saddled with a mortgage that is higher than the value of their homes. To address this wealth-draining burden, the Federal Housing Finance Agency should allow Freddie Mac and Fannie Mae to assist distressed homeowners by performing principal reductions and other appropriate loan modifications to make home ownership a sustainable and wealth-building experience for struggling families.

✓ **Enact a universal “baby bond” trust program to progressively endow every American child with an account.**

The baby bond accounts are designed to provide an opportunity for asset development for all newborns regardless of their family’s net worth. Children born into households with the least wealth would receive the maximum amount of seed funding from the government—estimated at \$60,000—and federal contributions to the accounts would be gradually reduced as the net worth of the child’s family increases. These child trust accounts, designed to grow at a federally guaranteed annual interest rate of 1.5 to 2 percent, would be accessed when the child becomes an adult and used for asset-enhancing events such as purchasing a home or starting a new business. With approximately 4 million infants born each year, and an average federal contribution at about \$20,000, we estimate the cost of the program to be \$80 billion, less than three percent of federal expenditures.



✓ **Expand Social Security.**

For people of color, Social Security is typically a prime source of income in their retirement years; for some, it is their only source of income. For those who are especially reliant on Social Security, such as the very old and the very poor, benefit levels should be boosted. Additionally, college students who have lost a parent should have their Social Security benefits reinstated so that the income lost from the death of a parent can, in part, be replenished. In order to extend the solvency of Social Security and pay for these expanded benefits, the Social Security cap on taxable wages should be eliminated so that high-wage workers can contribute more to the program's overall bottom line.

✓ **Make refundable tax credit expansions permanent and increase the EITC for childless workers.**

No one who works every day in America should live in poverty. Yet this reality is the case for far too many, and disproportionately true within communities of color. Few policies have been more effective in pulling workers and children out of poverty than the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC), which were temporarily expanded in 2009. There have been growing concerns about the need to increase the EITC for childless workers, who currently receive very little. Therefore, recent expansions to these tax credits should be made permanent and the EITC for childless workers, including non-custodial parents, should be increased as well.

✓ **Expand access to low- and no-cost financial services.**

People of color are much more likely than their White counterparts to be unbanked. As a result, basic needs such as check cashing, bill payment, and access to small short-term loans often come at an exorbitant price, in the long run reducing their ability to maintain or grow their liquid assets. To meet this need we support a variety of efforts to extend low-cost and no-cost services to the unbanked, including: (1) implementing the U.S. Postal Service Inspector General's proposal to expand access to affordable financial services; (2) expanding the range of financial services offered by Community Development

Financial Institutions (CDFIs); or (3) requiring traditional banking institutions to improve accessibility and product offerings so that everyone, across race and income levels will have access to a full range of affordable financial services.

✓ **Use the 10-20-30 concept when allocating resources.**

One particularly promising example of targeting resources to those most in need is the 10-20-30 concept. This approach designates at least 10 percent of new public resources to communities where 20 percent or more of the population has lived below the poverty line for the last 30 years. This place-based strategy can be deployed at the county or the census tract levels in order to better reach impoverished citizens in both urban and rural settings. The approach could prove to be quite useful for discerning how best to direct limited dollars to the nation's neediest communities, a disproportionate number of which are communities of color.

Conclusion

This analysis provides new insight into the close interplay between race and place as it relates to America's persistent wealth gap. Here we find that while everyone continues to experience the negative wealth events brought on by the Great Recession, Whites ultimately suffered much less damage to their overall net worth than did people of color. Comparatively speaking, Whites have greater diversity of assets to turn to in times of economic distress and are less likely to be saddled with mortgages that exceed the value of their homes. In addition, we find that the racial wealth gap has remained largely unchanged in the recovery period, and the gap in liquid wealth is even more daunting. For those communities at greater risk of frequent or protracted periods of unemployment, it is liquid wealth that proves to be the most critical for meeting daily survival needs. The results of this study indicate that communities of color have greater hurdles to overcome in their effort to recover from the Great Recession and from a history of economic marginalization. Policy interventions should be designed to meet this need.



CHAPTER ONE

Introduction

Several years into the recovery, far too many Americans continue to struggle under the weight of the nation's fragile economy. Whether it's overcoming the financial stress associated with long-term unemployment, significantly devalued or underwater homes, or rebuilding after a traumatic foreclosure experience, in many ways Americans are still hurting from the Great Recession.

But they don't hurt equally. While it is true that financial struggles can happen to anyone, anywhere, it is also true that in the U.S. there are racialized patterns of economic disadvantage that have been consistent over time (Conley, 1999; Hao, 2007; Oliver and Shapiro, 2007; Shapiro, 2004). It is because of these persistent patterns that researchers have set out to find alternative ways to build economic security for vulnerable households. To this end, there is a growing body of literature, pilot programs, and policies that embrace asset building as a strategy for fighting poverty (Sherraden, 1991).

Wealth, that is what one owns minus what one owes, anchors families. It provides a layer of stability in times of economic distress and serves as an intergenerational stepping stone to prosperity. Prosperous families rely on wealth to finance higher education, provide down payments for homes, provide capital for starting a business, and fund inheritances for heirs. So while income is vital for meeting daily needs, wealth moves families beyond survival mode and opens up critical doors of opportunity that enable them to thrive over a lifetime.

Wealth is Uneven in the U.S.

America has a structural problem when it comes to wealth inequality and it is even more pronounced when it comes to race. Wealth is extremely concentrated in the U.S. The richest 20 percent of the population hold over 89 percent of the

nation's wealth and the top one percent possess about 38 percent of the nation's wealth (Wolff 2012). It is a fact that there are many asset-poor whites in the U.S. who lack the economic security that wealth affords.

However, it is not widely understood that race is a stronger predictor of wealth than class. An analysis of the 2011 SIPP data finds that 80 percent of Black and Latino households have a net worth less than the White median of \$111,740. Additionally, the data show that racial wealth disparities exist even within income quintiles as displayed in the Figure 1. Blacks and Latinos possess only a fraction of the median net worth of Whites at every quintile level, but their wealth positions are progressively worse at the lowest income levels. This inverse relationship between wealth and income by race and ethnicity counters the notion that families are similarly situated across income categories.

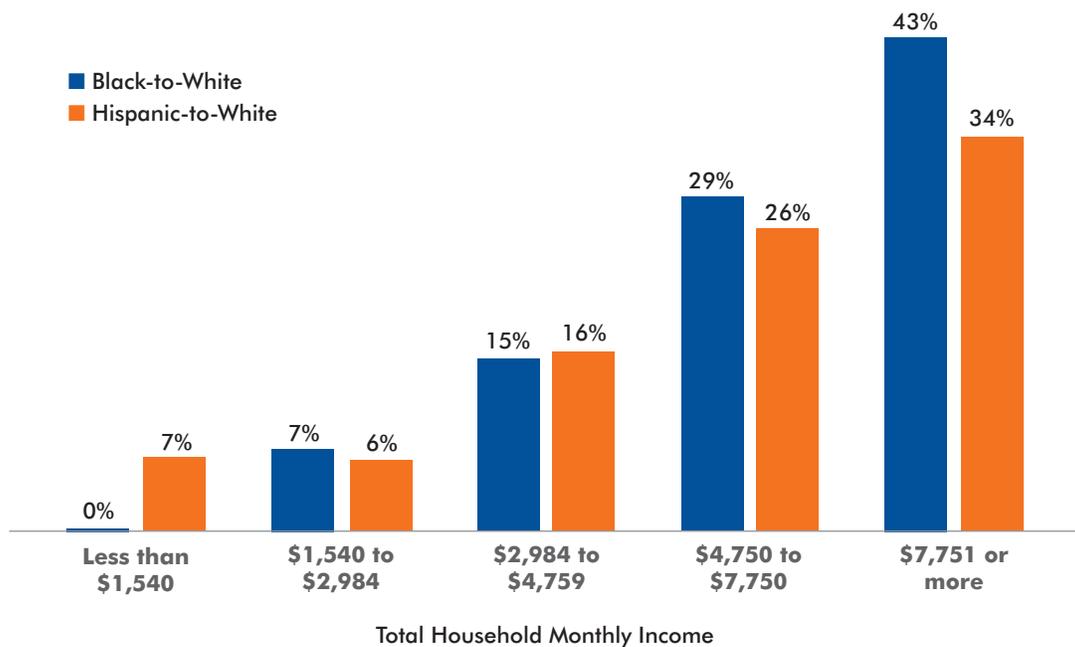
Historically, discriminatory policies and practices have played a significant role in creating wealth differentials between White communities and communities of color. From housing policies and practices that made it more difficult for people of color, particularly African Americans, to gain access to homeownership as early as their White peers, to tax policies that overwhelmingly favor affluent households, much of the wealth gap is the result of centuries of policy actions that have advantaged some while simultaneously disadvantaging others.¹ The legacy of these practices remains, with consequences for wealth acquisition, transfer, and growth among communities of color.

In addition to a history of economic exclusion, the subprime mortgage crisis and the Great Recession took a heavy toll on households of color. According to the Pew Research Center, Blacks, Asians, and Latinos all lost over half of their net worth in the immediate aftermath of this economic storm. The disproportionate burden of this devastation served to

¹ See for examples, Blau and Graham, 1990; Menchick and Jianakoplos, 1997; Conley, 1999; Chietji and Hamilton, 2002; Charles and Hurst, 2003; Gittleman and Wolff, 2003; Shapiro, 2004; Lui et al., 2005; Hao, 2007; Oliver and Shapiro, 2007; Taylor, Kochhar, and Fry, 2011; and Hamilton and Chiteji, 2013.



FIGURE 1: Ratio of Black and Hispanic Median Net Worth by Income Quintile, 2011 (SIPP)



Source: Author's analysis of U.S. Census Bureau's Survey of Income and Program Participation.

increase the nation's racial wealth gap to record levels, leaving Blacks and Latinos literally holding pennies, 5 and 6 cents respectively, for every dollar held by Whites in 2009 (Taylor, Kochhar, and Fry, 2011).

Other research conducted by the Institute on Assets and Social Policy at Brandeis University has examined the reasons behind the racial wealth gap. After tracing the same households over 25 years, they determined that there were five factors driving the racial wealth gap: (1) years of homeownership; (2) household income; (3) exposure to unemployment; (4) higher education acquisition; and (5) inheritances or other sources of financial support from family or friends (Shapiro, Meschede, and Osoro, 2013).

In the area of housing, historical residential segregation stunted growth in home equity for communities of color (cf. Flippen, 2004), Whites are more likely to be homeowners than are people of color, and communities of color were

targeted by subprime mortgage lenders during the run up to the housing crisis, thus increasing their rates of foreclosure and constraining their equity potential (U.S. Department of Housing and Urban Development, 2000). In the areas of income and unemployment, statistics show that disparities in income for Blacks and Latinos persist at every level of education (Bureau of Labor Statistics, 2014) and that Blacks in particular are likely to experience more frequent and longer bouts of unemployment during their working years (Nichols and Simms, 2012). In addition, many communities of color have a greater array of family members in poverty, which, through an altruistic motive, reduces their resources to save (Hefflin and Patillo, 2000; and Chiteji and Hamilton, 2004). Finally, the area of inherited wealth provides a stark contrast, as Blacks are less likely than Whites to receive any monetary gifts from family members who pass away (Blau and Graham, 1990; Gittleman and Wolff, 2014). All of these factors and more result in the deep and persisting wealth divides we see today.

2 Maury Gittleman and Ed Wolff (2004) demonstrate that there are no significant differences in savings between Black and White households once family income is accounted, as well as no significant racial differences in asset appreciation for households with positive assets. Their analysis was conducted prior to the most recent housing crisis.



To reverse this trend, we must disavow the notion that the racial wealth gap exists by mere accident of circumstance or due to broad scale pathologies rooted in financial ignorance or savings behavior.² Instead, we must acknowledge that these differences came about as a result of centuries of policy action and, as a result, they must be remedied by policy action.

The impetus for policy action is the self-interest of every American, regardless of background. The U.S. Census projects that in less than 30 years time, the nation will be made up of a majority of people of color. Given the projected growth of the very households that have been at the margins of the economy, the racial wealth gap should be considered a national economic security concern. It would be short-sighted to expect the U.S. economy to thrive with fully half of its population mired in poverty. No matter what the prognosticators say about the increasing efficiency of new technologies, we cannot expect the U.S. economy to be driven on autopilot. The nation will need to maximize the contributions of its future workforce through strategic invest-

ments that lead to a strong GDP and robust tax receipts that fund vital federal, state, and local programs and services. U.S. leaders must recognize that closing the racial and ethnic wealth gap is essential for maintaining the nation's worldwide economic leadership.

This report provides further evidence of the persistent nature of the racial wealth gap within the current recovery period. It utilizes both 2011 data (the most recently available) from the U.S. Census Bureau's Survey of Income and Program Participation (SIPP)³ and reports on preliminary results gleaned from a pilot study conducted by Duke University's Research Network for Racial and Ethnic Inequality. This study examines the financial gaps between racial subpopulations in four key cities across the U.S. The report concludes by defining a policy agenda that, when enacted comprehensively, will ensure that every American has the necessary tools to develop a sound "Asset House" that will result in wealth growth among disadvantaged populations and the eventual closing of the racial wealth gap.

3 This report will focus on data from the assets and liability topical module included in the tenth wave of the 2008 panel of the U.S. Census Bureau's Survey of Income and Program Participation (SIPP). Conducted in 2011, this wave of the SIPP interviewed 31,326 total households: 22,563 white households, 3,770 black households, 1,077 Asian households, 2,987 Hispanic households, and 929 other race households. Additional data from the fourth wave of the 2008 SIPP panel, conducted in 2009, and the 6th wave of the 2004 SIPP panel (conducted in 2005) are included in the analysis to highlight the impact of the recession and subsequent recovery on household wealth.



CHAPTER TWO

The Gap within the Racial Wealth Gap: Examining Differences in Liquid Wealth

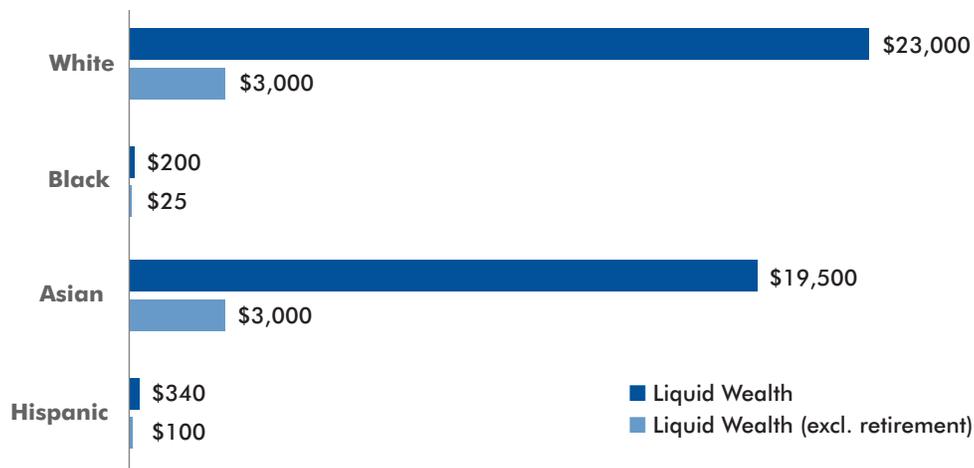
W ealth serves as a buffer that families can rely on to remain financially stable during economic disruption. When income is significantly reduced, or gone all together, it is wealth that keeps families from sliding down the socioeconomic ladder or, at least, makes that slide a little less steep than it otherwise might have been. Inadequate wealth, like inadequate income, leaves families without a safety net and can exacerbate the financially perilous circumstances of already disadvantaged families. But all wealth is not the same.

Liquid wealth—that is, financial assets that can be quickly turned into cash in times of decreased income or increased costs—provides the first line of defense for families who suffer a sudden blow to their income stream. Having the ability to quickly turn wealth into cash can make all the difference when it comes to meeting the daily necessities of life. Making

rent, covering transportation costs, and putting food on the table become a challenge when an income stream is suddenly lost and no cash reserves (or assets that can be quickly turned into cash) are available.

Despite the importance of liquid wealth, the sad reality is that it is largely non-existent within African American and Latino households. As of 2011, African Americans had a median liquid wealth of only \$200, compared to \$23,000 held by Whites. Latinos did not fare much better, with a liquid wealth of only \$340. And while the overall wealth gap remains large—Whites have a net worth over 15 times that of Blacks (\$111,740 vs. \$7,113) and over 13 times that of Latinos (\$111,740 vs. \$8,113)—when it comes to liquid wealth, the disparity is even more dramatic. The liquid wealth of Whites is over 100 times that held by Blacks and more than 65 times that held by Latinos.

FIGURE 2: Liquid Wealth by Race/Ethnicity, 2011



Source: Author's analysis of the 2011 U.S. Census Bureau's Survey of Income and Program Participation.



When retirement savings are taken out of the analysis, the disparities in liquid wealth are even more shocking. Blacks hold a mere \$25 and Latinos just \$100 in liquid wealth, compared with \$3,000 held by the typical White household. These figures suggest that Black and Latino households are living paycheck to paycheck, with no liquid assets available to address financial shocks or emergencies. In fact, these figures are so stark that the typical Black household would barely be able to feed a family of four for one day if forced to rely on liquid wealth reserves alone, and Latino families would most likely not even last a week. This absence of liquidity not only would thrust families into an immediate crisis if they were to experience any disruption in their income stream, it would also reduce their ability to take risks that might be necessary to improve their economic position over the long haul. With such meager cash reserves, the ability to pursue a career change, start a business, or move to a new city for better economic opportunities are all greatly diminished.

These low median liquid wealth holdings mean that the vast majority of African Americans (67%) and Latinos (71%) are liquid-asset poor, meaning that their financial assets (including retirement accounts) are insufficient to survive three months at the poverty line. In comparison, about a third of Whites (34%) and Asians (35%) are liquid-asset poor. Once retirement accounts are taken out of the equation, more than four out of five African Americans (83%) and Latinos (85%) are liquid-asset poor. The same can be said for just over half of Whites and Asians (53%).

Why the Gap?

What is at the root of these disparities? Are they merely a reflection of financial irresponsibility evidenced by wide variances in debt? The data suggest not. In fact, there are minimal differences between racial and ethnic groups when it comes to unsecured debt, such as credit card debt, school loans, or medical bills. Fully 47 percent of White households have unsecured debts compared to 44 percent of Black, 45 percent of Asian, and 42 percent of Hispanic households.⁴ After controlling for socioeconomic status and demographic characteristics, Black households are no more likely to report having any unsecured debt than are White households, while Asian and Latino households are significantly less likely to report holding unsecured debts. And even among those who carry debt, the amount held by Asian and Black households is not different from that of White households by a statistically significant degree.

The biggest difference emerges when we examine the types of unsecured debt each group holds. The SIPP data identify three categories of unsecured debt: store bills and credit card debt; loans from a bank or credit union; and other types of debts, including student loans and medical bills. Black householders are significantly more likely to report having “other” debt, such as medical bills or educational loans. More than one-fifth (21.5%) of Black households have other debt compared to 19 percent of Whites, 14 percent of Asians, and 15 percent of Hispanics. Why? This may represent an increased need to borrow money to pay for school and other critical needs.

⁴ These findings are a result of multivariate regression analysis that account for age, marital status, educational attainment, income and family size.



CHAPTER THREE

Diversifying Wealth

In the best of circumstances, liquid wealth, as important as it is, should only represent one slice of a family's overall net worth. Ideally, families would hold both tangible assets, such as a home or car, as well as financial assets, such as checking accounts, savings accounts, retirement accounts, and other financial assets. In analyzing the extent of asset diversity held across the various racial and ethnic groups, we find that Whites tend to have greater asset diversity than do people of color. In fact, more than half (55%) of Whites own four or more distinct asset types, compared to 49 percent of Asians and only one fifth of Blacks (21%) and Latinos (22%). The majority of Black and Latino households hold no more than two assets, and some hold none at all.

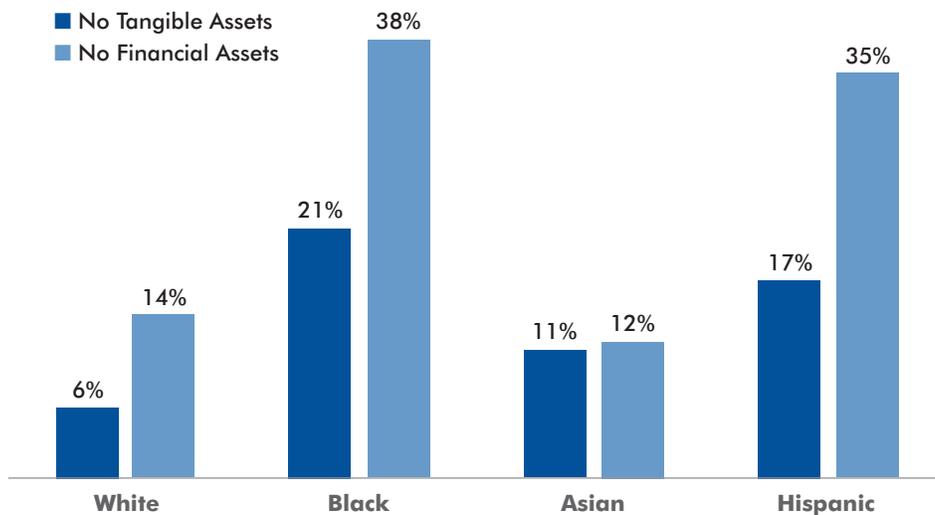
Asset quantity is one thing, but type of asset is quite another. Not only do Black and Latino households generally hold fewer assets than White and Asian families, but the types of assets they own—cars and checking accounts—typically do not grow in value over time, as would homes or retirement accounts.

Overall, the absence of assets is pronounced in communities of color. Blacks and Latinos are over twice as likely as Whites to hold neither tangible assets nor financial assets. More than a fifth of Blacks (21%) and 17 percent of Latinos have no tangible assets; among Whites and Asians, 6 percent and 11 percent, respectively, have no tangible assets. When it comes to financial assets, the absence is even more pronounced: over a third of all Blacks (38%) and Latinos (35%) have no financial assets whatsoever, compared to only 14 percent of Whites and 12 percent of Asians.

Where the Assets Are

For most Blacks and Latinos, checking accounts are their only financial asset. Most Whites hold both checking accounts (80%) and retirement accounts (58%), and nearly a third hold additional financial assets (31%). In comparison, just over half of African Americans hold checking accounts (55%), under a third hold retirement accounts (32%), and

FIGURE 3: Share of Households with No Tangible or Financial Assets by Race/Ethnicity, 2011



Source: Author's analysis of the 2011 U.S. Census Bureau's Survey of Income and Program Participation.



only about one in ten hold other financial assets (9%). Similarly, 60 percent of Latinos possess checking accounts, less than a third hold retirement accounts (28%), and only 6 percent own any other financial assets. Asians fare much

better in this respect: they exceed the proportion of Whites who hold checking accounts (83% vs. 80%) and are equally likely to hold retirement accounts (57%), but fewer report ownership of additional financial assets (24%).

TABLE 1: Asset Ownership by Type, 2011 (SIPP)

	Tangible Assets					Financial Assets			
	Any	Home	Car	Other Motor Vehicles	Other	Any	Checking Account	Retirement Accounts	Other
Total	90%	61%	85%	9%	22%	81%	74%	51%	25%
White	94%	98%	88%	11%	25%	86%	80%	58%	31%
Black	79%	42%	71%	2%	12%	62%	55%	32%	9%
Asian	89%	59%	84%	3%	18%	88%	83%	57%	24%
Hispanic	83%	43%	77%	3%	15%	65%	60%	28%	6%

Source: Author's analysis of the 2011 U.S. Census Bureau's Survey of Income and Program Participation.



CHAPTER FOUR

From Recession to Recovery

Though the national economy is said to be firmly within the throes of recovery, most families are struggling to rebuild wealth. In 2005, two years prior to the onset of the Great Recession, housing values were near their peak. Among White households, median net worth was more than \$142,000. Among Asian American households, typically clustered in urban centers where home values were soaring, median net worth was even higher, \$176,225. Blacks and Latinos trailed significantly, with a median net worth of \$12,840 and \$19,228 respectively.

Following the Great Recession, no group was spared from negative economic impacts. But among people of color, wealth not only declined, it was largely decimated. Asian and Black households lost more than half of their net worth (54% and 53% respectively), and wealth within Latino households plummeted by nearly two-thirds (65%). Though Latinos suffered the largest drop in wealth in terms of percentage change, Asians suffered the largest dollar declines, primarily because of their much healthier pre-recession wealth position.

In fact, following the downturn, the median net worth of Asian American households plummeted from over \$176,000 down to roughly \$80,000, a nearly \$95,000 decline. Although Whites too experienced large wealth losses during this period, their losses (16%) were significantly smaller than those experienced by communities of color. In 2009, the racial wealth gap had risen to record levels and Whites led all racial and ethnic groups in median net worth. They maintained that position in 2011, two years into the recovery.

Overall, the racial wealth gap shows signs of shrinking in the recovery period, but only to an infinitesimal degree. Between 2009 and 2011, the median net worth of Whites declined an additional six percent while wealth among people of color began a slow increase. Even with these trends, the racial wealth gap remains virtually unchanged, due to the large initial gaps between Whites and communities of color, especially Blacks and Latinos. As of 2011, Blacks and Latinos held only 6 and 7 cents each for every dollar of wealth held by Whites.

TABLE 2: Median Net Worth & Racial Wealth Gap: 2005, 2009, and 2011 (SIPP)

	Year			Change, 2005–2009		Change, 2009–2011	
	2005	2009	2011	Amount	Percent	Amount	Percent
Median Net Worth (\$2011)							
White	\$142,335	\$119,152	\$111,740	-\$23,183	-16%	-\$7,412	-6%
Black	\$12,840	\$6,081	\$7,113	-\$6,759	-53%	\$1,032	17%
Asian	\$176,225	\$81,291	\$92,259	-\$94,934	-54%	\$10,968	13%
Hispanic	\$19,228	\$6,668	\$8,113	-\$12,560	-65%	\$1,445	22%
Relative Holdings per \$1 White Wealth							
Black	\$0.09	\$0.05	\$0.06	-\$0.04	-43%	\$0.01	25%
Asian	\$1.24	\$0.68	\$0.83	-\$0.56	-45%	\$0.14	21%
Hispanic	\$0.14	\$0.06	\$0.07	-\$0.08	-59%	\$0.02	30%

Source: Author's analysis of the 2011 U.S. Census Bureau's Survey of Income and Program Participation.



Lingering Impacts of the Recession on Home Ownership and Home Equity

In America, it is still the case that homeownership provides the primary route to wealth accumulation for most families. For White homeowners, for example, home equity accounts for an average of 58 percent of their net worth, while it is 67 percent for Latinos and 72 percent for Asian homeowners. For African Americans, homeownership is even more critically connected to wealth accumulation, as home equity among Black families accounts for nearly all of their net worth (92%).

The slow nature of the housing recovery, and potential over-inflation of the housing market in pre-recession years, has hindered a return to pre-recession levels of wealth for many U.S. households. Moreover, it has left a long-standing mark on both home ownership rates and home equity nationwide. In 2011, home ownership rates lagged behind 2005 levels for every racial and ethnic group. While declines were minimal among White (68.4% v. 69%) and Asian households (59% vs. 60%), drops in homeownership were greater

among Blacks (42% vs. 44%) and Latinos (43% vs. 47%). In fact, fewer than half of Black and Latino households owned homes either during the pre-recession period or in the period immediately after the recession.

Overall, Whites continue to lead all groups in homeownership rates, as 68 percent of White households own their homes, compared to 42 percent of Black, 59 percent of Asian, and 43 percent of Latino households. Homeownership follows well-known patterns. For example, the likelihood of owning a home increases with age, educational attainment, and income; married and widowed individuals are significantly more likely than single individuals to own a home; and those living in states hit hardest by the housing crisis are less likely to be homeowners. However, even after controlling for these and socioeconomic factors,⁵ a racial homeownership gap persists. These findings remain consistent whether or not income is included in the analysis.

The overall declines in home ownership rates from the pre-recession period are small in comparison to the decreases in home equity. Between 2005 and 2011, all racial and

TABLE 3: Home Ownership Rates and Median Equity in Own Home Pre- and Post-Recession (SIPP)

	Year			% Change		
	2005	2009	2011	'05-'09	'09-'11	'05-'11
Own Home (%)						
Total	62.8%	62.2%	61.3%	-1%	-1%	-2%
White	69.0%	69.3%	68.4%	0%	-1%	-1%
Black	44.1%	43.3%	41.9%	-2%	-3%	-5%
Asian	59.5%	57.1%	58.6%	-4%	2%	-2%
Hispanic	47.1%	42.7%	43.0%	-9%	1%	-9%
Median Equity in Own Home (\$2011)						
Total	\$130,153	\$101,705	\$85,000	-22%	-16%	-35%
White	\$138,216	\$104,850	\$94,000	-24%	-10%	-32%
Black	\$86,385	\$68,153	\$54,999	-21%	-19%	-36%
Asian	\$232,664	\$157,275	\$125,000	-32%	-21%	-46%
Hispanic	\$115,180	\$62,910	\$51,000	-45%	-19%	-56%

Source: Author's analysis of the 2011 U.S. Census Bureau's Survey of Income and Program Participation.

5 Based on the results of logistic regressions.



ethnic groups lost home equity, with communities of color suffering significantly more losses than Whites. Across this time span, median equity among White homeowners declined by 32 percent, while Black homeowners lost over a third of their home's value (36%) and Asian homeowners lost nearly half (46%). Latinos suffered the greatest equity reduction, losing over half (56%) of the value of their homes.

Though home equity declines were not limited to the immediate post-recession period, as homeowners across all races and ethnicities suffered large losses between 2005 and 2009 followed by additional losses between 2009 and 2011, during the recovery period, equity losses within White households stood at roughly half that experienced by households of color.

The Underwater Experience

One of the most devastating impacts of the Great Recession was the huge rise in underwater mortgages. This phenomenon left families "stuck" in an untenable financial situation where they owed more on their mortgages than their homes were worth. This situation puts homeowners at risk of default and foreclosure, and serves as a drain on wealth, rather than putting them firmly on the path to wealth accumulation.

In 2005, only 2.1 percent of all homeowners owed more than their homes were worth: 1.9 percent of White homeowners, 2.7 percent of Black homeowners, 2.3 percent of Asian homeowners, and 3.2 percent of Latino homeowners were underwater in 2005. By 2011, fully a quarter of Black homeowners and 28 percent of Latino homeowners owed more on their mortgage than their home was worth compared to 15 percent of Whites. The disparity between Whites and Latinos is, in part, driven by geography. In a multivariate logistic regression, individuals who live in Arizona, California, Florida, Michigan, or Nevada, states we identify as particularly hard hit by the housing crisis, were found to be more than three times as likely to be underwater than those who do not live in such states.

After accounting for age, education, income, marital status, living in a crisis state, and various other mortgage characteristics, the analysis showed that racial/ethnic gaps remain in terms of whether or not a homeowner is saddled with an

underwater mortgage. Compared to similar White homeowners, Latino homeowners are 35 percent more likely to be underwater, while African American homeowners are 80 percent more likely to be underwater than their White counterparts. Moreover, these differences are not an artifact of differing magnitudes of being underwater. Whether we measure negative equity by means or medians, Black, Latino, and Asian homeowners are deeper underwater than White homeowners.

Net Worth Beyond Home Equity

Looking at changes in median net worth beyond home equity provides a slightly different perspective on the wealth position of various racial and ethnic communities. We see, for example, that in the immediate aftermath of the recession, communities of color showed substantially greater losses in median net worth than did White households. Asian households lost the most in terms of absolute dollars and Black households experienced the greatest relative decline, losing more than a third (37%) of their net worth.

In the recovery period, the median White household's net worth excluding home equity rebounded to near pre-recession levels. Median values for Black, Asian, and Latino households actually surpass 2005 levels, with Blacks showing by far the most growth, literally doubling their non-home-equity net worth in merely two years. Yet even with this substantial growth, Black households hold the lowest median net worth of all groups examined. Still, the trend is moving in a positive direction. Whether the growth observed here is due to increased precautionary savings, reduction in debt, rebounding asset values, an inability to access homeownership due to more stringent mortgage qualifying conditions, or some combination of these factors, is difficult to determine. Still, these increases, combined with the negligible gains among White households, caused the racial wealth gap on this metric to narrow, though only slightly.

However, this seemingly optimistic trend should be viewed within context. Since the Black and Latino households began with a lower dollar base in net worth excluding home equity, relatively small changes in dollar values will lead to relatively large percentage changes in the statistic. When examining net worth excluding home equity, for every dollar held by Whites, Blacks hold only 7 cents, while Latinos hold



TABLE 4: Median Net Worth Excluding Home Equity: 2005, 2009, and 2011 (SIPP)

	Year			Change, 2005–2009		Change, 2009–2011	
	2005	2009	2011	Amount	Percent	Amount	Percent
Median Net Worth Excluding Home Equity (\$2011)							
White	\$34,678	\$30,790	\$33,626	-\$3,888	-11%	\$2,836	9%
Black	\$1,768	\$1,111	\$2,237	-\$657	-37%	\$1,126	101%
Asian	\$28,448	\$21,280	\$30,000	-\$7,269	-26%	\$8,820	42%
Hispanic	\$3,407	\$2,971	\$4,010	-\$436	-13%	\$1,039	35%
Relative Holdings per \$1 White Wealth							
Black	\$0.05	\$0.04	\$0.07	-\$0.01	-29%	\$0.03	84%
Asian	\$0.82	\$0.69	\$0.89	-\$0.13	-16%	\$0.20	30%
Hispanic	\$0.10	\$0.10	\$0.12	\$0.00	-2%	\$0.02	24%

Source: Author's analysis of the 2011 U.S. Census Bureau's Survey of Income and Program Participation.

12 cents—a small gain of 3 cents and 2 cents respectively for these groups over immediate post-recession levels. Asian Americans fared significantly better, holding 89 cents per dollar held by Whites, thereby making a 20 cent gain during the recovery period.

The Promise and Limits of Entrepreneurship

Entrepreneurship seemingly provides a strong wealth advantage to communities of color. For the eight and six percent of Blacks and Latinos that respectively engage in business ownership, the median net worth of Black (\$91,500) and Hispanic (\$81,391) business owners is each over 10 times higher than the median net worth (inclusive of home equity) of Blacks and Hispanics generally (\$91,500 vs. \$7,113 and \$81,391 vs. \$8,113 respectively). While entrepreneurship clearly provides increased wealth outcomes to people of color, a tremendous wealth gap remains. The median net worth of Black and Latino households is still less than a third of the median overall net worth of White business owners (\$287,166).

In addition to net worth, in 2011, median business equity among business owners was one of the only arenas in which communities of color were closer to the equity held by Whites. Again, for the eight and six percent of Blacks and Latinos that respectively engage in business ownership, the median business equity was \$20,000 among Black business owners and \$12,500 for Latino business owners versus \$25,000 for White business owners. For every dollar in business equity held by Whites in 2011, Blacks and Latinos held 80 cents and 50 cents, respectively.

Business equity held by Asians greatly outperformed Whites and, in fact, doubled the equity held by White entrepreneurs (\$50,000 vs. \$25,000). While these successes deserve to be celebrated, business ownership is not a panacea for the overall racial wealth gap. One key challenge goes to the differences in the overall proportion of business owners in different communities. Whites, for example, are more likely than any other racial or ethnic group to be business owners. Twelve percent of Whites are entrepreneurs compared to 11 percent of Asians, 8 percent of Latinos, and only 6 percent of Blacks.



CHAPTER FIVE

Race, Place, and Crisis States

Arizona, California, Florida, Michigan, and Nevada were the five states hardest hit by the housing crisis. These states, too, are home to a large number of certain communities of color. More than 40 percent of Asian and Latino homeowners lived in one of these five states in 2007, according to the American Community Survey. In contrast, only one in five White homeowners and just 18 percent of Black homeowners lived in one of these five “crisis states.” Among homeowners who did live in crisis states, Whites were more likely to own their homes free and clear.

Just over two-thirds (68%) of White homeowners were still making mortgage payments in these states when the housing crisis hit, while fully 79 percent of Black homeowners, 81 percent of Asian homeowners, and 82 percent of Latino homeowners were still responsible for a monthly mortgage note. In non-crisis states, more than a third of White homeowners (34%) owned their homes free and clear in 2007 compared to 23 percent of Asian and 26 percent of Black and Latino homeowners in these states.

TABLE 5: Homeowners by Race/Ethnicity, State of Residence and Mortgage Status, 2007 (ACS)

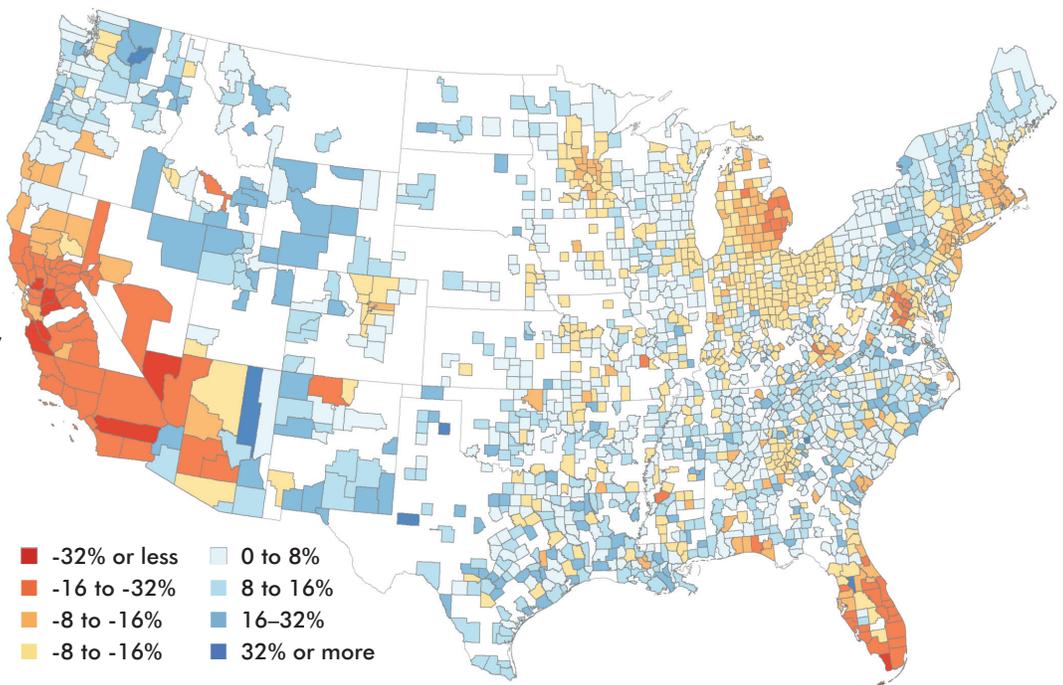
	State of Residence		Owe Mortgage		Owned Free and Clear	
	Crisis State	Non-Crisis State	Crisis State	Non-Crisis State	Crisis State	Non-Crisis State
White	20%	80%	68%	66%	32%	34%
Black	18%	82%	79%	74%	21%	26%
Asian	41%	59%	81%	77%	19%	23%
Hispanic	43%	57%	82%	74%	18%	26%

Source: Author’s analysis of the 2007 American Community Survey

FIGURE 4: Percent Change in Median Home Values by County, 2005–2007 vs. 2008–2010 (ACS)

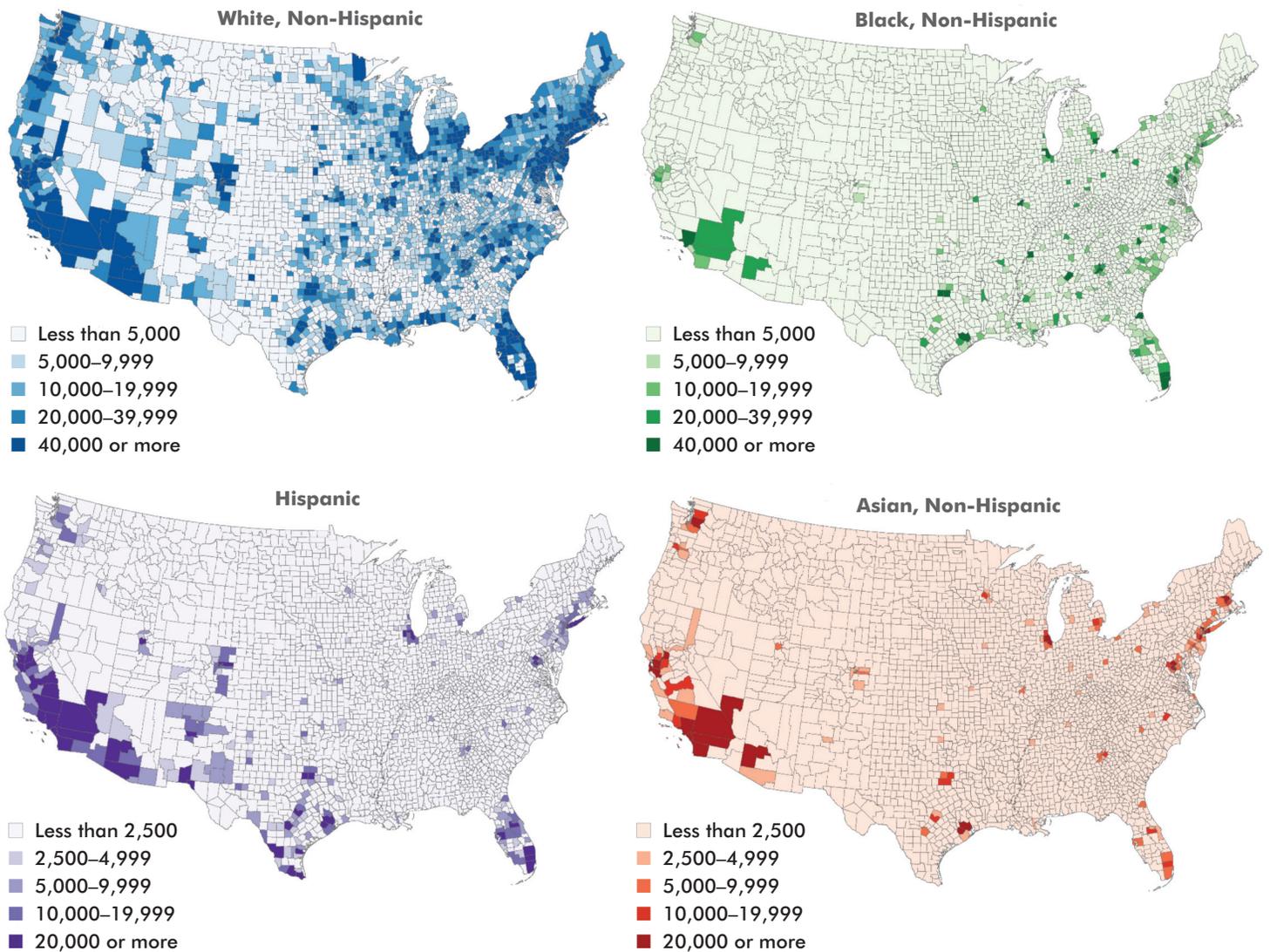
As this map displays, the Great Recession had its greatest negative impact on home values in the West (California, Arizona, and Nevada), Michigan, Florida, and major cities on the East Coast (DC/Baltimore, NYC, and Boston metro areas). (The white areas on the map indicate counties that are not included in the three-year data.)

Source: 2005–2007 and 2008–2010 American Community Survey.



The maps below demonstrate the geographical concentration of homeowners by race and ethnicity in the 2010 Census.

FIGURE 5: Homeowners by County, 2010 Census



Source: 2010 Census



CHAPTER SIX

A Preliminary Look at Racial and Ethnic Subpopulations

The differential impact of the volatility of the housing prices highlighted previously, along with the concern of masking the asset and debt position of more precisely defined ethnic groups in such catchall phrases like “Asian” or “Latino” highlights the need for further analysis at a more local level with more precisely defined ethnic categories. The National Asset Scorecard in Communities of Color (NASCC) project was designed to provide a demonstration addressing some of these concerns.

According to the NASCC pilot study⁶ of racial/ethnic wealth differences in four particularly diverse U.S. metropolitan areas (Los Angeles, CA; Tulsa, OK; Miami, FL; and Washington, DC), there are striking differences in wealth distribution across racial subpopulations and geographic locations. For example, Whites in Tulsa, Oklahoma, achieved the highest homeownership rate across all groups of all of the cities sampled (about 85%). This rate was roughly double that experienced by Black residents of Tulsa (43%) and was the largest disparity found across all groups and all cities. In the same city, just over half of Mexicans owned their homes, as did about two-thirds of Native Americans.

As to homeownership among Black households who did not identify Caribbean or recent immigration from the African continent, the highest rate of homeownership was found among those living in Washington, DC, as these families achieved about a 60 percent homeownership rate. While this home-ownership rate was high relative to their counterparts in the other three cities examined, it was still low in com-

parison with some other racial and ethnic groups in the District. For example, the Black homeownership rates in DC trailed White homeownership in that city by 20 percentage points (60% vs. 80% respectively), but exceeded Latino rates and the rates of Black families identifying as African. The DC sample targeted some Asian groups, and estimated that about two-thirds of Korean and Asian Indian families owned their homes, while the homeownership rate of Vietnamese and Chinese families ranked amongst the highest in DC.

While upwards of 90 percent of Vietnamese Americans in the NASCC sample owned their own homes in Washington, DC, only about half of Vietnamese families in Los Angeles reached the same milestone. These families, though, were not alone in their comparatively low homeownership rates, as Black (American descent), African, Mexican, Korean, and Asian Indian Americans all had homeownership rates under 50 percent in Los Angeles. Filipinos had rates just under the 60 percent experienced by Whites, while close to two-thirds of Chinese and Japanese families, respectively, were homeowners.

Of all the cities examined, respondents within the Miami metro area had the lowest homeownership rate and were most closely clustered across racial and ethnic groupings. Just under two-thirds of Whites, Cubans, and Caribbean Black families owned their homes, while the remaining groups, Blacks of American descent, Latinos descended from South Americans, and Puerto Rican families, all had homeownership rates around 50 percent.

⁶ The National Asset Scorecard and Communities of Color (NASCC) is a research initiative that included the design and implementation of a piloted survey in targeted metropolitan areas to provide insights about the asset and debt positions of racial and ethnic groups. Four metropolitan areas were chosen using a systematic approach to ascertain geographical and demographic national representativeness of the ethnic groups defined at the ancestral origin level: Los Angeles, CA, Miami, FL, Tulsa, OK and Washington, DC. Various sampling techniques were utilized to in order to locate and identify an ethnically plural sample that consisted of very specifically defined ethnic groups. The techniques included directory-listed landline samples targeted to census tracts where specific ethnic groups resided; cell phone random digit dialing (RDD) samples drawn from rate centers that cover targeted ethnic group ZIP codes, the use of samples drawn from targeted ZIP codes based on billing address; and the use of surname-based lists targeting specific groups.



Access to Assets

Generally speaking, a greater share of Whites had more asset-generating accounts than other groups in all four cities, except in Los Angeles, select Asian groups rivaled or surpassed White norms as it relates to asset holdings. In Los Angeles, for example, close to 90 percent or above of all Asian American groups, with the exception of Vietnamese Americans, had positive financial and liquid assets. The pattern, though, is a little more varied with regard to only retirement accounts. Similar to Whites, about two-thirds of Japanese American respondents had retirement assets, followed by Filipinos with just under 60 percent retirement account ownership and just over half of Chinese Americans. Yet only about a quarter of Vietnamese Americans reported positive retirement assets.

Among U.S. descendent Blacks in Los Angeles, nearly a third had no financial assets value, while almost 40 percent indicated a lack of liquid assets available to tap into in case of emergency. And over 40 percent lack retirement assets. Blacks identifying as African descendants in Los Angeles fared much better, with over 85 percent reporting asset liquidity. Nonetheless, close to half of African Blacks lack any assets specifically designated for retirement.

Similar to Blacks in Los Angeles, some 35 percent of those in Miami lack positive liquid assets, but an even greater share, over 70 percent, lack positive retirement assets. Similar to Africans in Los Angeles, Caribbean, and Haitian Blacks in Miami fared somewhat better than American-descendent Blacks, with about 20 percent reporting no positive liquid assets, but they did not fare better with regards to retirement assets with a little less than 80 percent reporting retirement assets.

In terms of Latinos, there was more clustering around financial, liquid, and retirement asset ownership. At least 80 percent of each group in Miami reported positive financial or liquid asset value, and at most 36 percent reported positive retirement asset value.

In Tulsa, financial asset value is most concentrated among Whites, followed by Native Americans, and with Blacks and Mexican Americans exhibiting the lowest asset value. Over 90 percent of Tulsa Whites have positive financial and liquid asset values, with 40 percent having a retirement asset. Among Native Americans, 80 percent have liquid asset value, with 30 percent having a retirement asset. Among Blacks and Mexicans, only about 60 percent of each have positive liquid asset value, with only 15 percent having any retirement asset value at all.

Almost all Whites and Asian subgroups in Washington, DC held financial and liquid asset value, while nearly 90 percent of Latinos have positive value associated with liquid assets. U.S. and African Blacks trail closely behind, with 80 percent holding positive financial or liquid asset value.

In terms of retirement assets in DC, there is great variation across racial and ethnic groups. Over three-quarters of Koreans reported retirement asset value, which was the highest rate in the city. This is followed by Whites, Asian Indians, and Chinese; about two-thirds of each group reported retirement asset value. The lowest cluster of positive retirement asset value occurred for Blacks, Latinos, and Vietnamese Americans, with each group reporting close to 30 percent positive retirement asset value.

Payday Lending as an Indicator of Informal Financial Market Usage

Generally speaking, there was little use of payday lenders across all racial and ethnic groups. Among the four cities, usage was most prevalent in Tulsa and Miami. In Miami specifically, payday loans were most frequently used by U.S. descent Blacks and Puerto Ricans. In Tulsa, Native Americans and U.S. descendent Blacks were most likely to report having used payday loans.

Across all groups, nearly 20 percent report lending over \$1,000 or receiving a loan from friends or family. Conversely, Filipinos and Koreans were the most likely to be owed over \$1,000 (28% and 25% respectively).



Across all four cities, the highest reports of the use of payday lending occurred most frequently in Tulsa and Miami. Indeed, close to ten percent of White respondents reported the use of payday loans in Tulsa, which was the highest White rate across all four cities, but marginally lower than the use of Blacks and Native Americans in Tulsa. In Miami, the use of payday loans was most frequented by Puerto Rican and U.S. descendent and Caribbean/Haitian descendent Blacks.

Closing the Gap

Overall, the analysis shared throughout this report provides new insight on the intimate interplay between race and place as it relates to America's persisting wealth gap. Here we find that while all continue to experience the negative economic events brought on by the Great Recession, com-

munities of color ultimately suffered and are continuing to suffer a great deal more. Comparatively speaking, Whites have greater diversity of assets to turn to in times of economic distress and are less likely to be saddled with mortgages that exceed the value of their homes. Additionally, we find that the racial wealth gap has remained largely unchanged in the recovery period, and the gap in liquid wealth is even more daunting. Worst of all, significant portions of both Black and Latino households were found to have either zero or negative net worth, meaning they were literally broke or beyond broke, even within this period of economic recovery. To map a path that addresses these challenges and begins the significant task of narrowing and ultimately closing the racial wealth gap, we offer the following policy agenda, which provides a comprehensive set of components meant to close the gap and provide a future of wealth security for all.



A Policy Agenda for Closing the Racial Wealth Gap

The findings provided here demonstrate a large and persistent racial wealth gap that is significantly influenced by a lack of diversified assets, a paucity of liquid assets, and different experiences with homeownership. Although felt quite differently across ethnic subpopulations, the depth and scope of the racial wealth gap has been persistent over time. And because the gap has, in large part, been driven by policies that enabled racially discriminatory societal and market practices (Shapiro, Meschede and Osoro, 2013), the nature of the solution should also focus on targeted policy strategies designed to reverse the ill effects of past policies.

A growing body of research points to asset building as a key strategy for promoting economic security among economically vulnerable households (cf. Lui, 2009; McKernan, Ratcliffe, and Vinopal, 2009). The majority of these studies highlight policies that can be deployed to incentivize the accumulation of private assets such as homes, savings, and businesses (Di, 2007; Sherraden, 1991; McKernan and Chen, 2005). A few also point to the importance of public assets—such as Social Security, Medicare, and Unemployment Insurance—for low- and moderate-income households (Rockey Moore and Lui, 2011; Jacobson, Huang, Neuman, and Smith, 2013; Nichols and Simms, 2012) as well as bold new universal policies including the establishment of federal accounts at birth inversely proportional to familial wealth, which would be used later as an adult as seed money for the opportunity to purchase an asset that will appreciate over a lifetime. What has been missing from the public debate is a systematic way of thinking about private and public asset accumulation as a means of alleviating poverty and boosting economic security for all.

To link these two approaches, the Center for Global Policy Solutions has developed a theoretical framework—The Asset House—to serve as an easily understandable guide for identifying the broad spectrum of policies that are important for household economic security. Currently, these policies exist as an ad hoc jumble of federal and state laws.

There has been no concept presented for how they can work together to create a comprehensive, systematic, and targeted frame for addressing poverty.

The Asset House

The Asset House includes four component parts—a foundation, first floor, top floor, and roof—which are each integrally connected to the other.

First is the foundation, which is represented by broad societal assets that include citizenship/enfranchisement, public education, and social insurance programs such as Social Security, Medicare, Unemployment Insurance, and Medicaid. These foundational assets either ensure individual rights and/or protect both individuals and society against risks that can threaten the social order.

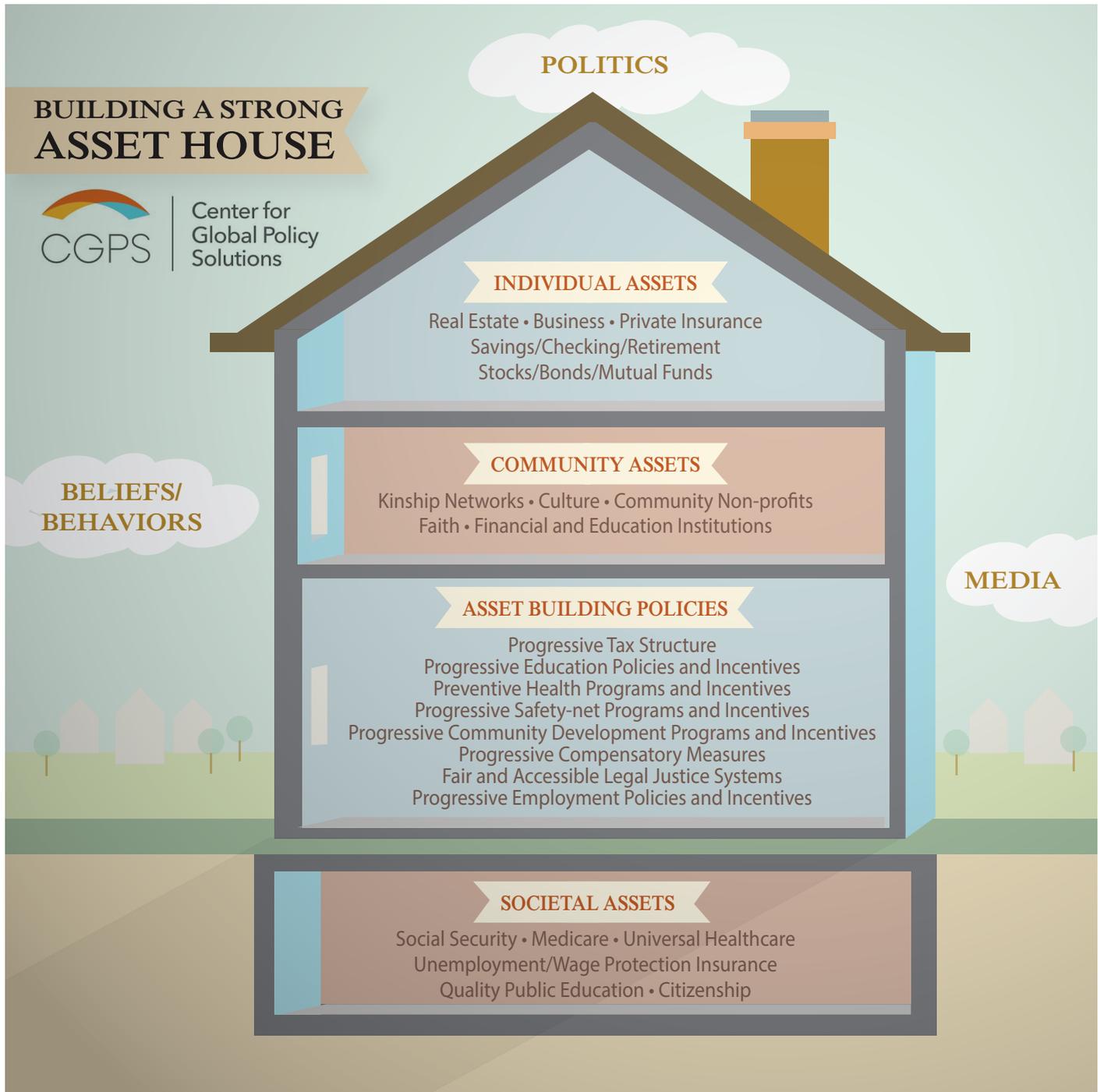
The first floor of The Asset House comprises policies that facilitate asset accumulation, such as retirement savings incentives, incentives to promote post-secondary educational attainment, subsidies to encourage business development, and subsidies to encourage homeownership, among other policies.

The top floor of The Asset House is made up of community or group assets that are not government derived but often serve as social and economic supports for individuals and families. These include kinship networks, cultural institutions, and community- and faith-based organizations, among other assets.

Finally, the roof of The Asset House is what people typically think of when referring to wealth: personal ownership of real estate, businesses, stocks/bonds/mutual funds, and private checking and savings accounts. Personal asset accumulation at the roof of the Asset House is almost impossible to obtain without the enabling factors afforded by the assets in the levels below.



FIGURE 6: Asset House



Source: Building an Asset House: Policies to Close the Racial Wealth Gap (Rockeymoore, 2006).



In sum, although many people think of assets as value-bearing possessions that are accrued by the merit of individuals without societal help, in reality asset building for individuals rests on top of a host of public policies and programs that facilitate their accumulation, maintenance, and protection. This public asset building structure is so ingrained in the U.S. system that it is often taken for granted. However, a new focus on wealth inequality in the U.S. is shining a light on how the current structure is heavily biased in favor of those individuals and corporate titans that already possess wealth, a population that is, as this report makes clear, predominantly White.

This report uses The Asset House framework to offer the following recommendations—encompassing universal policies with targeted components and inclusive of both public and private asset building strategies—for closing the racial/ethnic wealth gap.

Expand Access to Jobs and Higher Wages

One underlying factor related to racial wealth gap is the issue of employment fragility. Black and Latino communities, in particular, experience higher rates of unemployment, as well as more frequent and extended bouts of joblessness. When employed, they suffer significant wage disadvantages. Together, this creates a lived experience that limits capacity to invest in wealth-building vehicles or even amass significant emergency financial reserves to meet daily needs during periods of unemployment. To address these issues, we make the following recommendations:

✓ *Make work pay, and pay workers fairly.*

It is difficult to divert money to savings vehicles that will result in wealth, liquid or otherwise, if one's earnings are so meager that there is barely enough to cover the basic necessities of life. Therefore, we urge passage of living wage policies to make work pay for every American. We also acknowledge that pay discrimination is not a relic of the past. In fact, a pay gap exists across both race and gender throughout the nation and persists across every level of education. To end this entrenched practice of discrimination, paycheck fairness must become a lived reality so that the wage secrecy that allows discrimination to thrive can once and for all come to an end.

✓ *Implement a federal jobs guarantee.*

To address the lingering jobs crisis, we propose the formation of a National Investment Employment Corps that would focus on employment opportunities tailored to the nation's human and physical infrastructure needs. The Employment Corps would provide job opportunities in the building and restoration of roads, highways, dams, museums, parks, the postal service, childcare centers, health clinics, and schools. It could serve as a pilot site for the implementation of innovative green technologies that would enhance our environmental health. The jobs could offer decent pay and benefits. We propose that the minimum salary for jobs in the employment corps would be \$23,000, with the same benefits package offered to all federal employees. After years of zero jobs growth in the public sector, the time is past due for a significant investment in the employment future of the American people.

✓ *Major Infrastructure Investment.*

Across the nation, basic infrastructure needs remain unfulfilled. Bridges, roads, water mains and other key public goods are in need of maintenance and repair. Forward-looking essentials such as broadband expansion could at once meet a critical need while also serving as a key source of job opportunities nationwide. In order to maximize the effectiveness of infrastructure investments in disadvantaged communities, it is critical that any such jobs policy be inclusive of targets for ex-offenders or "returning citizens" and be funneled through, or at least include, mandated subcontracting opportunities for businesses owned by people of color.

Improve Housing Policy

In the wake of the housing meltdown, it has become clear that communities of color absorbed the bulk of the damage. Still, home equity remains a key component for wealth acquisition and growth for most Americans. In order to ensure that diverse communities regain footing in this critically important arena, the following proposals are put forth:



✓ **Ensure mortgage relief programs are transparent and fair.**

Congress and the Administration should ensure that future mortgage settlements include the collection of racial/ethnic, gender, geographical, and other demographic data to ensure that relief programs are transparent, fair, and targeting the hardest-hit communities.

✓ **Allow Freddie Mac and Fannie Mae to perform principal reduction and loan modifications for distressed homeowners.**

As a consequence of the housing crisis, many homeowners are saddled with a mortgage that is higher than the value of their homes; the proportion of homeowners underwater is particularly high in communities of color. As such, they are significantly more likely than Whites to be saddled with a mortgage that is higher than the value of their homes. To address this wealth-draining burden, Freddie Mac and Fannie Mae should be allowed to assist distressed homeowners by performing principal reductions and other appropriate loan modifications to make home ownership a sustainable and wealth-building experience for struggling families.

✓ **Encourage shared-equity loans between private investors and struggling or first-time homeowners.**

The recent housing crisis and prolonged economic downturn has resulted in lingering damage to the credit and savings of both current and former homeowners, as well as aspiring homebuyers. Allowing a shared-equity option provides the ability to at least gain a foot-hold within the housing market. Without this option, a path to homeownership and any equity potential would be highly unlikely for many struggling or potential homeowners.

✓ **Implement alternative credit models rather than rely on the exclusive use of FICO scores for credit assessments.**

For many, the primary barrier standing between homeownership and a perpetual existence within the renter's market is the FICO score. Yet studies suggest that alternative models of creditworthiness are often more reliable in predicting future behavior than the traditional credit score standard. To overcome this barrier, a move

toward the full-scale implementation of alternative credit models is key for closing the homeownership gap.

Expand Investments in Children

There are few assets more fundamental to the ability to acquire wealth than that of education. As both a critical public good and, once acquired, a key individual asset, education is one of the most pivotal resources required for the development of a strong Asset House. Great disparities remain in both access and quality educational acquisition in America. The following recommendations address this critical resource:

✓ **Enact a universal “baby bond” trust program to progressively endow every American child with an account.**

The baby bond accounts are designed to provide an opportunity for asset development for all newborns regardless of their family's net worth. Children born into households with the least wealth would receive the maximum amount of seed funding from the government—estimated at \$60,000—and federal contributions to the accounts would be gradually reduced as the net worth of the child's family increases. These child trust accounts, designed to grow at a federally guaranteed annual interest rate of 1.5 to 2 percent, would be accessed when the child becomes an adult and used for asset-enhancing events such as purchasing a home or starting a new business. With approximately four million infants born each year, and an average federal contribution of \$20,000, we estimate the cost of the program to be \$80 billion annually, less than three percent of federal expenditures.

✓ **Implement universal Pre-K education.**

Access to quality early education is a key predictor of future educational success. Additionally, childcare services are a significant expense for families. In fact, the cost of these services exceeds the average cost of college tuition in 31 states. Providing quality universal Pre-K education would not only prove to be a wise human capital investment, it would also help defray a significant expense for working families, thereby increasing their ability to save for the future.



✓ **Provide equitable education quality in K-12 public schools.**

Although public education is available nationwide, the quality of that education varies widely. To provide the necessary tools for the next generation and ultimately eliminate the racial wealth gap, it is critical that the gulf in education quality be addressed and actively closed. New research by the Civil Rights Division of the Department of Education, for example, shows that less than half of Native American and Alaskan Native students have access to the full range of college preparatory courses, as do only 57 percent of Black students. Providing equitable quality education would close such disparities, along with providing similar educational physical environments and teachers with similar levels of experience and educational backgrounds to every student in America.

✓ **Curb tuition and fee increases at public and private universities, and hold future hikes to the rate of inflation.**

One key barrier to wealth acquisition is debt. And because of pre-existing wealth disadvantages, students of color are especially likely to rely on student loans in order to meet the cost of a college degree. Over the course of the past several years, tuition and fees associated with college attendance have sky-rocketed, so much so that student loan debt has now reached a record high, in excess of \$1 trillion. In order to ensure that the nation creates the educated workforce that it needs to remain competitive in the global marketplace, and does so in a way that does not put college education beyond the financial reach of the rising demographic majority, it is critical that tuition costs are curbed, and future hikes are limited so as to not exceed the rate of inflation.

✓ **Implement student debt forgiveness.**

Establish federal insurance protections for students who earned their degrees and are working, but receive earnings that are too low to repay their loans in full. In such situations, policy should be established that allows for loan repayment indexing or full student loan forgiveness.

Broaden Availability of Fair Financial Services

Because they are more likely to be unbanked, in other words, lacking access to any banking services, communities of color often lack affordable key financial services that most others take for granted. As a result, basic needs such as check cashing, loan acquisition, bill payment, and access to basic checking and/or savings accounts are either non-existent or come at an exorbitant price. The following recommendations address this critical issue:

✓ **Expand access to low- and no-cost financial services.**

People of color are much more likely than their White counterparts to be unbanked. As a result, basic needs such as check cashing, bill payment, and access to small short-term loans often come at an exorbitant price, in the long run reducing the ability of people of color to maintain or grow their liquid assets. To address this need, we support a variety of efforts to extend low-cost and no-cost services to the unbanked, including: (1) implementing the U. S. Postal Service Inspector General's proposal to expand access to affordable financial services within Post Offices nationwide; (2) expanding the range of financial services offered by Community Development Financial Institutions (CDFIs); and (3) requiring traditional banking institutions to improve accessibility and product offerings so that everyone, across all race and income levels, will have access to a full range of affordable financial services.

✓ **Require that investment advisors put the needs of their clients first.**

The housing crisis demonstrated that communities of color were especially at risk of unscrupulous mortgage brokers who put the interests of the banking industry ahead of that of their clients. In order to avoid similar behavior among investment advisors, we urge the development of a rule that would define all investment advisors act as fiduciaries, thereby requiring that they put the interests of their clients first.



✓ **Implement alternative credit models rather than rely on the exclusive use of FICO scores for credit assessments.**

For many, the primary barrier standing between homeownership and a perpetual existence within the renter's market is the FICO score. Yet studies suggest that alternative models of creditworthiness are often more reliable in predicting future behavior than the traditional credit score standard. To overcome this barrier, a move toward the full-scale implementation of alternative credit models is a key in closing the homeownership gap.

Expand Access to High-Impact Entrepreneurial Opportunities

One of the primary drivers of the racial wealth gap is the low-rate of scalable, economically viable businesses established by people of color. Entrepreneurship provides both a critical avenue toward wealth accumulation and an important source of job creation within communities of color. And though recent trends suggest that increasing numbers of people of color are making the choice to start their own business, distinct challenges often arise. The following recommendations address these challenges and help grow the seeds of entrepreneurial activity within diverse communities.

✓ **Provide targeted entrepreneurial training and assistance.**

Develop mechanisms to provide accessible entrepreneurial training along with early debt financing through schools and community-based career and technical educational settings. Such support should be targeted to ventures that launch in low-wealth communities and that employ low- and semi-skilled workers of color.

✓ **Modernize the Community Reinvestment Act (CRA) to include business lending and investment services.**

Create a pooling mechanism for bank CRAs that expands access to capital for entrepreneurs of color by providing business lending and investment services. In this way, the CRA can help to encourage and finance product and service development by making funding available across industries.

✓ **Improve data-tracking mechanisms to measure impact at Minority Business Development Centers.**

Minority Business Development Centers (MBDCs) provide a one-stop source for programs to assist entrepreneurs of color with funding, technical, legal, and marketing services, yet very little data is available to measure the reach and impact of the program. We propose developing a data-tracking mechanism to help capture the outcomes that result from interaction with MBDCs in order to understand better which businesses ultimately thrive and which are in need of greater support.

Make Tax Policy Work for Working Families

It is no secret that, in the general sense, tax policy is overwhelmingly tilted in favor of the wealthy. Yet there are some key, common sense actions that have improved the financial positioning of low and moderate-income workers. To expand on what we already know works and do even more to level the tax policy playing field, the following proposals are prescribed:

✓ **Make refundable tax credit expansions permanent and increase the EITC for childless workers.**

No one who works every day in America should live in poverty. Yet this reality is the case for far too many, and disproportionately true within communities of color. Few policies have been more effective in pulling workers and children out of poverty than the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC), which were temporarily expanded in 2009. There have been growing concerns about the need to increase the EITC for childless workers, who currently receive very few tax credits. Therefore, recent expansions to these tax credits should be made permanent and the EITC for childless workers, including non-custodial parents, should be increased as well.



✓ **Create a renters tax credit.**

Subsequent to the nation's foreclosure crisis and harsh housing downturn, we have experienced a stark increase in the renter's market. In fact, according to Harvard's Joint Center for Housing Studies, there are four million more renters today than there were in 2007. And not only are more people renting, rental rates have skyrocketed, as now half of U.S. renters pay more than 30 percent of their income to housing costs, up from only 18 percent a decade ago. Communities of color are especially likely to find themselves within the rental market. Not only do they now pay a premium in those markets, they also lose out on the tax advantages that home ownership brings. Creating a renter's credit would help level the playing field in this regard, allowing hard working Americans that are not in the position to buy a house to still have access to tax advantages currently only afforded to homeowners.

✓ **Develop a first-time homeowner's tax credit scaled to income.**

In the wake of the housing crisis, it has become increasingly difficult for low and moderate-income families to achieve the dream of homeownership. This goal can be brought within reach through the implementation of a first-time homeowner's tax credit, scaled to income so that those most economically disadvantaged would receive the greatest benefit.

✓ **Expand the Savers Tax Credit to include savings applied to a liquid account.**

To maximize incentives and payoffs associated with saving for the future and to specifically address the gap in liquid wealth, we propose expanding the Savers Tax Credit to include savings applied to a liquid account, and to make such savings eligible for federal matches for low-wealth savers.

✓ **Improve the overall fairness of the tax code.**

In a myriad of ways, tax policy in the U.S. is strongly tilted in favor of the wealthy. A 2010 report by the Corporation for Enterprise Development (CFED) and The Annie E. Casey Foundation estimates that the federal government allocated \$400 billion of its 2009 budget in the form of tax subsidies and savings to promote asset development policies, with more than half of the benefits going to the top five percent of earners. The bulk of this allocation comes from items like mortgage interest deductions, exclusion of investment income on life insurance and annuity contracts, reduced rates of tax on dividends and long-term capital gains, and exclusion of capital gains at death. The total allocation does not include subsidies or tax breaks given to corporations nor funds from state and local level policies. An analysis of these 2009 tax expenditures reveals that more than 53 percent of all subsidies went to the top 5 percent of taxpayers—those with incomes more than \$160,000; the top fifth of tax payers—those with incomes greater than \$80,000—received 84 percent of the benefits. The average asset subsidy awarded to households making more than \$1 million was nearly \$96,000. In contrast, the bottom 60 percent of taxpayers received only four percent of the benefits, and the bottom fifth of taxpayers received .04 percent of the benefits, amounting to \$5 on average for each taxpayer. If the federal asset promotion budget were allocated in a more progressive manner, federal policies could be transformative for low income Americans.

In order to make the tax code more fair, we propose a range of remedies, including increasing the 15 percent tax rate on capital gains, eliminating the mortgage interest deduction on homes valued at \$500,000 or more, and increasing the estate tax.



Make Retirement Secure for All

Due to the wide and persistent wealth gap, communities of color experience retirement years that are especially likely to be economically perilous. In order to create a retirement future that is secure for all, we propose the following actions:

✓ **Expand Social Security.**

For people of color, Social Security is a key source of revenue in their retirement years; for some, it is their only source of revenue. For those who are especially reliant on Social Security, such as the very old and the very poor, benefit levels should be boosted. Additionally, a caregiver credit should be provided to compensate women for years taken off from paying work in order to care for others. And finally, college students who have lost a parent should have their Social Security benefits reinstated so that the income lost from the deceased parent, can in part, be replenished. In order to extend the solvency of Social Security and pay for these expanded benefits, the Social Security cap on taxable wages should be eliminated so that high wage workers can contribute more to the program's overall bottom line.

✓ **Establish universal retirement accounts that include a government match.**

The Obama Administration's recently announced MyRA program provides workers the option of setting money aside for retirement savings. While this effort is a step in the right direction, its potential effectiveness is limited because it is both voluntary and unmatched. In order to increase the retirement savings potential of every American, universal retirement accounts must be established that are inclusive of a matched component.

✓ **Defend defined benefit pension plans.**

Pensions have been under increasing attack in recent years. In many instances, workers who were long promised pensions as part of a comprehensive benefits package have now found those promises unfulfilled. We propose across-the-board protection of defined benefit pensions so that those who have labored under agreements guaranteeing the existence of such pensions will have those pension agreements honored when the time comes.

Targeted Policy Prescriptions Are a Must

If there is one issue that the continued existence of the racial wealth gap emphasizes, it is the complete inadequacy of universalism to correct the ramifications of centuries of discriminatory policy. As President Johnson rightly pointed out decades ago, "You do not take a man who for years has been hobbled by chains, liberate him, bring him to the starting line of a race, saying, 'you are free to compete with all the others,' and still justly believe you have been completely fair..." As such, universal policies, though beneficial to all, provide no means for those who have been historically disadvantaged to catch up. Still, with the limitations of the current political climate in mind, programs focused on race are largely a non-starter. As such, the concept of targeted universalism provides a feasible middle ground that is worthy of aggressive pursuit. While providing benefits to all, such an approach is tilted to favor the most disadvantaged and, in the process, disproportionately provides race-specific results.

✓ **Enact a version of the 10-20-30 Plan.**

One particularly promising example of targeted universalism is the 10-20-30 Plan. This proposal designates at least 10 percent of development assets to communities where 20 percent or more of the population has lived below the poverty line for the last 30 years. As currently proposed, the concept relies on county-level data. To make the plan even more robust, it would be wise to utilize local data at the Census tract level in order to better reach impoverished citizens in both urban and rural settings. Moving forward, a plan such as this could prove to be quite useful for discerning how best to target limited dollars to the nation's neediest communities, a disproportionate number of which are communities of color.



Conclusion

The prescription provided here reflects a comprehensive examination of the key policy avenues that could prove most beneficial for closing the racial wealth gap. Included are policies that represent each of the key pillars that make up a strong Asset House. Social insurance policies and communal assets (e.g., Social Security and quality public education) are foundational. Important, too, are key policies promoting individual and group asset accumulation (e.g., universal retirement accounts, baby bonds, shared equity loans, etc.), as well as policies that promote both community and individual assets (e.g., Minority Business Development Centers, increased homeownership through Fair Housing Act enforcement, etc.). Each of these tools, and others, are essential for building a future that improves economic empowerment across racial and ethnic divides, a future that one day relegates America's racial wealth gap to merely a historical fact, rather than a lingering contemporary reality.



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